



VARDHMAN TEXTILES LIMITED

Emerging Outlook of Indian Textile Industry



Dear Shareholders,

It gives me immense pleasure to share with you my perception of the global textile business and the Vardhman Group's initiatives on overall growth and operational excellence. I must confess this year is unusual for the economy and the textile business.

Indian economy is most likely to witness GDP growth of less than 8 percent in 2011-12 after consistently remaining above 8% in last couple of years. Slowing down of industrial growth caused by the tightening of monetary policy to curb unabated increase in inflation is one endogenous factor for the lower GDP estimates for FY2011-12. On the other side, sluggish recovery in global economy especially in developed world has acted as exogenous factor for the present economic situation.

The Indian textile industry too has been facing unprecedented period of difficulty due to slowing down in the demand especially from the beginning of current financial year 2011-12. The uncertainties in the export policy of Government of India related to cotton fiber and cotton yarn have added to the woes of the textile industry. The restrictions imposed on cotton yarn exports in the last quarter of FY2010-11 led to huge accumulation of cotton yarn inventory with the mills leading to crashing of yarn prices even after exports allowed from April 2011. The financial stress caused by aforesaid developments is likely to reflect in the reduced profitability of the textile industry in the country in FY2011-12.

Nevertheless, we are confident about the bright future of textile industry in long term under conducive policy environment. At present, this industry in India is one of the most modern as compared to our competitors such as China and Pakistan. The sub group set up by the Ministry of Textiles on fiber has estimated that the industry will need 35 Million plus spindles till 2020 to produce additional 4000 Million Kg of Yarn which will double our present production.

Vardhman Group is shaping itself well to meaningfully participate in emerging opportunities for Indian textile industry in medium to long run. We are also responding to the current challenges of rising costs and nearly stagnant demand both at domestic and export market, reflected in abnormally lower prices as well less inquiries for new orders. The prevailing business scene is a tough learning period to be nimble and responsive to the changing market dynamics. The company has initiated a process of reviewing systems and processes across the businesses with the objective of identifying scope of improvement for cost cutting and higher value addition. I believe that with the collective efforts, the company should emerge stronger through adaptive learning which also can reassure relatively a sustained performance.

With best wishes,



(SHRI PAUL OSWAL)
Chairman & Managing Director

BOARD OF DIRECTORS

SH. SHRI PAUL OSWAL — Chairman & Managing Director
 SH. S. PADMANABHAN — (Nominee of IDBI)
 SH. ARUN KUMAR PURWAR
 SH. PRAFULL ANUBHAI
 SH. SUBASH KHANCHAND BIJLANI
 SH. ASHOK KUMAR KUNDRA
 SH. DARSHAN LAL SHARMA
 SH. SHRAVAN TALWAR
 SH. SACHIT JAIN — Executive Director
 SMT. SUCHITA JAIN — Executive Director
 SH. NEERAJ JAIN — Executive Director

CGM (FINANCE, ACCOUNTS & TAXATION)

SH. RAJEEV THAPAR

COMPANY SECRETARY

SH. VIPIN GUPTA

AUDITORS

M/s S.C. VASUDEVA & CO.,
 CHARTERED ACCOUNTANTS,
 NEW DELHI

BANKERS

STATE BANK OF PATIALA, ALLAHABAD BANK
 ICICI BANK LTD., PUNJAB NATIONAL BANK
 STATE BANK OF INDIA, BANK OF INDIA
 CORPORATION BANK, IDBI BANK LTD.
 CANARA BANK, STANDARD CHARTERED BANK
 STATE BANK OF HYDERABAD, STATE BANK OF MYSORE
 ORIENTAL BANK OF COMMERCE

REGISTRAR & TRANSFER AGENT

ALANKIT ASSIGNMENTS LIMITED, NEW DELHI

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REGISTERED & CORPORATE OFFICE

CHANDIGARH ROAD, LUDHIANA-141 010.

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E-mail: secretarial.lud@vardhman.com

Web site: www.vardhman.com

WORKS

**ANANT SPINNING MILLS,
MANDIDEEP**

**ARIHANT SPINNING MILLS,
MALERKOTLA**

**ARISHT SPINNING MILLS,
BADDI**

**AURO DYEING,
BADDI**

**AURO SPINNING MILLS,
BADDI**

**AURO TEXTILES,
BADDI**

**AURO WEAVING MILLS,
BADDI**

**MAHAVIR SPINNING MILLS,
(GASSED MERCERISED YARN UNIT),
HOSHIARPUR**

**MAHAVIR SPINNING MILLS
(TEXTILE DIVISION), BADDI**

**VARDHMAN SPINNING AND GENERAL MILLS
(UNIT-I & II), LUDHIANA**

**VARDHMAN SPINNING MILLS,
BADDI**

**VARDHMAN FABRICS,
BUDHNI**

**VARDHMAN YARNS,
SATLAPUR**

**VARDHMAN FABRICS
(POWER DIVISION),
BUDHNI**

**VARDHMAN YARNS
(POWER DIVISION),
SATLAPUR**

BRANCHES

- P-22, 3rd Floor, Flat No.6,
C.I.T. Road, Scheme IV,
KOLKATA- 700 014.
- Chandigarh Road,
LUDHIANA- 141 010.
- 314, Solaris II, Opp. L&T Gate
No.6, Saki Vihar Road,
Andheri (East), MUMBAI- 400 072.
- 504, Dalamal House,
Nariman Point, MUMBAI- 400 021.
- 309-310, Surya Kiran Building,
19, Kasturba Gandhi Marg,
NEW DELHI- 110 001.
- 212, Urdu Ghar, Ist Floor,
Deen Dayal Upadhyaya Marg,
NEW DELHI-110 002.
- 377-B, Muthuswami Industrial
Complex, Palladam Road, TIRUPUR- 638 604.

NOTICE

NOTICE is hereby given that the THIRTY EIGHTH ANNUAL GENERAL MEETING of Vardhman Textiles Limited will be held on Saturday, the 23rd day of July, 2011 at 10.00 a.m. at the Registered Office of the Company situated at Chandigarh Road, Ludhiana, to transact the following business:-

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2011, Profit and Loss Account for the year ended on that date, together with Report of Auditors and Directors thereon.
2. To declare Dividend.
3. a). To appoint a Director in place of Mr. Sachit Jain, who retires by rotation in accordance with Article 108 of the Articles of Association of the Company and being eligible, offers himself for re-appointment.
b). To appoint a Director in place of Mr. Prafull Anubhai, who retires by rotation in accordance with Article 108 of the Articles of Association of the Company and being eligible, offers himself for re-appointment.
c). To appoint a Director in place of Mr. A. K. Kundra, who retires by rotation in accordance with Article 108 of the Articles of Association of the Company and being eligible, offers himself for re-appointment.
4. To appoint Auditors for the year 2011-2012 and to fix their remuneration

BY ORDER OF THE BOARD

PLACE : NEW DELHI
DATED : 9th May, 2011

(VIPIN GUPTA)
COMPANY SECRETARY

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF/HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY, IN ORDER TO BE EFFECTIVE MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING. THE BLANK PROXY FORM IS ENCLOSED.
2. The information pursuant to Corporate Governance Clause of the Listing Agreement(s) regarding the directors seeking appointment/re-appointment in the Annual General Meeting as proposed in Item No. 3 of the notice is also being annexed hereto separately and forms part of the Notice.

3. **The Register of Members and the Share Transfer Books of the Company shall remain closed from 12th July, 2011 to 23rd July, 2011 (both days inclusive)**
4. The Members holding shares in physical mode are requested to notify the change in their address, if any, at the earliest to the Registrar & Transfer Agent/Company. However members, holding shares in electronic mode may notify the change in their address, if any, to their respective Depository Participants.
5. Members desiring any information, as regards Accounts, are requested to write to the Company at its Registered Office at least 10 days before the date of Annual General Meeting so as to enable the management to keep the information ready.
6. The copies of relevant documents can be inspected at the Registered Office of the Company on any working day between 10.30 A.M. to 12.30 P.M.
7. Members holding shares in the same/identical name(s) under different folios are requested to apply for consolidation of such folios and send relevant share certificates to the Company/Registrar and Transfer Agent.
8. The Ministry of Corporate Affairs ("MCA") has vide Circular Nos. 17/2011 and 18/2011 dated April 21, 2011 and April 29, 2011, respectively, taken a 'Green Initiative in Corporate Governance', by allowing paperless compliances through electronic mode, allowing to send documents such as Notice convening General Meetings, Audited Financial Statements, Directors' Report, Auditors' Report, etc. and any other notice/documents, henceforth in electronic form in lieu of the paper form.

In case you wish to support your Company's concern to prevent global environment degradation, you are requested to please register your E-mail ID with your DP, if you hold the Company's shares in electronic form, under intimation to the Registrar & Transfer Agent through your registered E-mail ID. However, if you hold the shares in physical form then you may register your E-mail ID with Registrar & Transfer Agent of the Company by sending a letter under your Registered Signature at the below mentioned address.

M/s Alankit Assignments Limited,
2E/21, Alankit House, Jhandewalan Extension,
New Delhi-110 055
Phone: (011) 41540060-63,
Fax: (011) 41540064,
E-mail: rta@alankit.com

BY ORDER OF THE BOARD

PLACE : NEW DELHI
DATED : 9th May, 2011

(VIPIN GUPTA)
COMPANY SECRETARY

Information pursuant to Corporate Governance Clause of the Listing Agreement(s) regarding the Directors seeking appointment/re-appointment in the Annual General Meeting

Name of the Director	Mr. Sachit Jain	Mr. A.K. Kundra	Mr. Prafull Anubhai
Date of Birth	08.07.1966	15.04.1943	20.01.1938
Date of Appointment	30.03.1994	28.01.2009	26.07.1980
Expertise in specific functional area	Business Executive having rich experience of more than 21 years in Textile Industry	Retired from Indian Administrative Services and having expertise in Industrial Policy/ Industrial Administration and Planning.	Industrialist and Business Consultant having experience of more than 38 years.
Qualification	B.Tech, M.B.A.	M. A. Eco., Ph. D.	B.Com, B.S.C. (Eco.)-London
Directorships of Other Companies as on 31 st March, 2011	<ol style="list-style-type: none"> Vardhman Holding Limited. Vardhman Acrylics Limited. Vardhman Yarns & Threads Limited. Srestha Holdings Limited Santon Finance & Investment Company Limited. Flamingo Finance & Investment Company Limited. Ramaniya Finance & Investment Company Limited. Vardhman Spinning and General Mills Limited (formerly known as Vardhman Linen Limited) Pradeep Mercantile Company Private Limited Vardhman Apparels Limited Vardhman Nisshinbo Garments Company Limited Syracuse Investment & Trading Company Private Limited Adinath Investment & Trading Company. Devakar Investment & Trading Company Private Limited. Mahavir Spinning Mills Private Limited (formerly known as Vardhman Textile Processors Private Limited). Marshall Investment & Trading Company Private Limited. Plaza Trading Company Private Limited Anklesh Investments Private Limited VTL Investments Limited UTI Asset Management Company Limited. Vardhman Special Steels Limited. 	<ol style="list-style-type: none"> Nimbua Greenfield (Punjab) Limited. Punjab Alkalies & Chemicals Limited. Geojit Credits Private Limited. 	<ol style="list-style-type: none"> Unichem Laboratories Ltd. Gruh Finance Ltd. Torrent Cables Ltd. The EMSAF- Mauritius, Mauritius Vardhman Special Steels Limited. Management Structure & Systems Private Ltd. Baker Oil Tools (India) Private Ltd. Birla Sun Life Trustee Co. Pvt. Ltd. Centre For Science, Technology and Policy (CSTEP) (Section-25 Company)
Chairman/Member of Committees of other Companies as on 31 st March, 2011	Audit Committee <ol style="list-style-type: none"> VMT Spinning Company Limited (Chairman) Vardhman Yarns & Threads Limited (Chairman) Vardhman Nisshinbo Garments Company Limited (Member) UTI Asset Management Limited (Member) Investors' Grievance Committee: <ol style="list-style-type: none"> Vardhman Holdings Ltd. (Member) 	Audit Committee <ol style="list-style-type: none"> Geojit Credits Private Limited (Member) 	Audit Committee <ol style="list-style-type: none"> Gruh Finance Ltd. (Member) Torrent Cables Ltd. (Member) Unichem Laboratories Ltd. (Chairman) Birla Sun Life Trustee Co. Pvt. Ltd. (Chairman) Shareholders'/Investors' Grievance Committee: <ol style="list-style-type: none"> Gruh Finance Ltd. (Member) Torrent Cables Ltd. (Member)
No. of shares	40,005	NIL	NIL
Relationship with other Director(s)	Mr. S. P. Oswal is the Father-in-law and Mrs. Suchita Jain is the wife of Mr. Sachit Jain.	Not related to any Director	Not related to any Director

DIRECTORS' REPORT

Dear Members,

The Directors of your Company have pleasure in presenting their 38th Annual Report on the affairs of the Company together with the Audited Accounts of the Company for the year ended, 31st March, 2011.

1. FINANCIAL RESULTS:

The Financial Results for the year are as under :-

PARTICULARS	2010-2011	(Rs. in Crore) 2009-2010
Turnover	3,636.96	2,767.22
Profit before Depreciation, Interest & Tax (PBDIT)	944.69	594.63
Interest and Financial expenses	109.81	86.73
Profit before Depreciation and Tax (PBDT)	834.88	507.90
Depreciation	226.02	220.87
Profit before Tax (PBT)	608.86	287.02
Provision for Tax	123.75	56.75
- Current	4.65	16.51
- Deferred Tax		
(Net of Adjustment)		
Tax adjustment of previous years	0.66	-
Tax effect (Premium on redemption of FCCBs)	10.09	-
Profit after Tax (PAT)	469.71	213.76
Corporate Dividend Tax written back	1.24	1.95
Balance brought forward	131.35	60.85
Adjustment of preceding years tax effect in respect of premium paid on redemption of FCCB	25.12	-
Balance available for appropriation	577.18	276.56
Appropriations:		
Proposed dividend on:		
-Equity shares	28.64	17.33
-Corporate Dividend Tax	4.65	2.88
	33.29	20.21
Transfer to General Reserve	300.00	125.00
Surplus carried to Balance Sheet	243.89	131.35
	577.18	276.56
Earnings per share (Rs.)		
- Basic	78.06	37.00
- Diluted	78.06	31.83
Dividend per share (Rs.)	4.50	3.00

2. MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

A) BUSINESS REVIEW:

The global economy kicked off a sputtering growth in FY 2010-11 with developed economies showing faint signs of revival. The main engine of global growth, the United States, moved into a recovery mode with employment coming off highs & retails sales growing month on month, albeit slightly, and consumer confidence improving. This growth was accompanied by a huge surge in world commodity prices, with the Continuous Commodity Index (CCI) surging more than 42% during the year. This rise was mainly attributed to the \$600 billion of Quantitative Easing part Deux (QE2) by the Federal Bank of America which released unprecedented amounts of liquidity. This liquidity got channeled into commodities and prices soared.

This also gave rise to supply side inflation and fast growing economies in Asia bore the brunt. Their economies had barely recovered from the financial

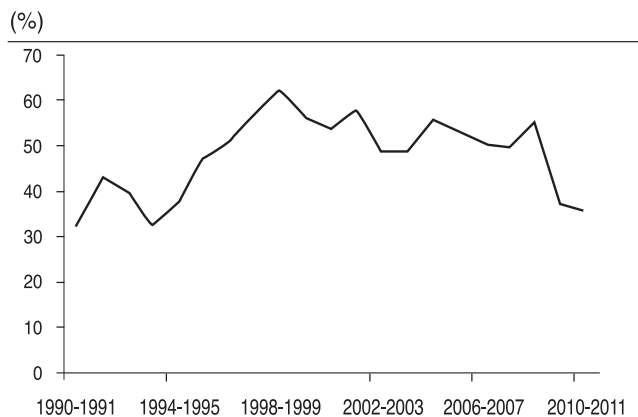
crises of FY 2008-09 and raising rates at this juncture would have meant putting a spanner in the way of growth. Most Asian economies therefore held off raising interest rates till the second half of the year and then a series of quick rate hikes followed, more particularly in China & India, who have clearly indicated that they don't mind sacrificing growth at the altar of inflation control. As a result, the earnings growth is expected to be hit in the current fiscal. Further, the QE2 will come to an end in June 2011 and the Fed has no plans of a QE3 as of now. In anticipation, the commodities have already come off their lifetime highs.

Cotton & Yarn:

Cotton prices were buoyed by strong global fundamentals, with US Department of Agriculture (USDA) reports forecasting a 6% y/y reduction in end season stocks to 41.5 million bales (of 480 lbs). This compares with 43.9 million bales (mb) in 2009-10 and 60.5mb in 2008-09.

Although global cotton demand dipped by around 1.3% y/y in 2010-11, import demand from China rose by 37% y/y over the same period. Both developments were mainly due to supply constraints and global price rationing following a 8% decline in China's cotton output. China traditionally accounts for 30% of global cotton production. Extremely tight global end-season stocks underpinned prices; the stocks-to-use ratio at 35% will be the tightest since the 1993-94 season.

Global Stock-to-use ratio lowest since 1993-94:



Sources: USDA, Standard Chartered Research

In 2010-11, the cotton crop in China & Pakistan was damaged by bad weather and the global production fell. This led to an increase in cotton prices. The boom in prices was also fuelled by speculative trading in commodities which increased prices beyond fundamentals.

India had exported 8.5 million bales of cotton in 2009-10. In September 2010, the Government of India announced a cap of 5.5 million bales of cotton for exports, around 18% of the estimated production of 31.5 million bales (of 375 lbs) in the current cotton season (CS) 2010-11. This led to lesser availability of cotton for trade and with high import demand from China, international prices rose during the month. Prices in India also increased. The Cotlook A index rose by 133% from \$1 per pound in September, 2010 to about \$2.33 per pound in March, 2011 due to limited availability for exports on the back of restrictions by India coupled with robust demand from China and traditional importing countries. Indian Shankar 6 rose in tandem from Rs.37,000/ candy in Sept 2010 to Rs.60,000/ candy in March 2011.

In line with cotton prices, cotton yarn prices also continued to remain high. This increase was in fact more than the increase in cotton prices due to pent up demand in the system where the pipeline of yarn stocks was at very low levels and also due to increased demand from a recovering global economy. Cotton yarn prices touched a high of \$6.50/kg. To look at this in perspective, the average of the last 20 years was around \$3/kg, with \$4.5/kg being the previous all time high in cotton yarn prices. These prices have since corrected and touched around \$4.50-\$5.00 in the middle of May 2011.

In order to curtail the rise in cotton yarn prices, the Indian Government had imposed a limit of 720 mln kgs on cotton yarn to be exported in FY 2010-11.

Outlook for Cotton Prices:

These high prices are not expected to sustain, in part on expectations of increased acreage, particularly in US, China & Africa. China's import demand is also expected to slow down on a combination of high market prices, stronger output and competition from synthetic fibres. China has also planned a cotton purchase-and-reserve policy in 2011 with a view to stabilising prices in the new season. Pakistan, where floods devastated cotton crops in the 2010-11 season, is another market which is likely to see a substantial increase in cotton output from previous year.

Overall, the world market is expected to remain structurally tight (although better than FY 2010-11), but this will not be fully apparent until later in the season when the new crop stocks are drawn down. Global cotton production is expected to increase by about 13% from 24.5 million tonnes in cotton season 2010-11 (Oct to Sept) to 27.5 million tonnes in cotton season 2011-12. The closing stock of 2011-12 is expected to be around 10.5 million tons which is higher than last 2 years but still lower than normal closing stock levels in the past. The stock-to-use ratio is expected to improve to about 42% but will still be lower than the normal 48-52% in the past (excluding last 2 years).

In anticipation of a bumper cotton crop this year, global cotton prices as of now have already come off their previous highs. The Dec New York future is significantly lower than the current New York future. Global yarn prices are decreasing in line with the cotton prices. The anticipation in the market is that prices may come off further and therefore the demand for yarn has reduced as buyers are waiting for lower prices to buy.

Overall, this year is likely to be turbulent and may have adverse impact on the operations of the Industry at large. However because of prudent cotton buying practices and conservative financial norms, Vardhman may not get as much affected as the rest of the spinning industry.

Technology Upgradation Fund Scheme (TUFS):

TUFS had been suspended temporarily by the government in June 2010. The Scheme has now been re-instated with a few changes; (i) Capital subsidy will now be available on looms for weaving as well. (ii) a 5% interest reimbursement may be given to the spinning units (against 4% earlier) if the unit is set up with matching downstream capacity in weaving/processing. (iii) A cap of Rs.1,982 crores has been put on the total subsidy which will be given for the next one year. This has been allocated between various sectors.

The sunset clause of the scheme remains unchanged at March 31, 2012. All loans sanctioned till that date will be eligible for subsidy for the life of the loan.

Women Empowerment at Vardhman:

Vardhman Group has a long tradition of non-discriminatory gender neutral Human Resource (HR) policy based on mutual trust, robust value system and transparent procedures. The top management's

commitment to the cause has seen growing female participation at all levels of work spanning from high profile corporate assignments to shop floor operations.

The company has seen entry of female in top management right up to executive director position. This is followed by positions occupied by females of all age groups at different corporate positions including several high profile departments.

In spite of the fact that textile is a hard core manufacturing industry, the organization has witnessed growing numbers of female working at shop floor. The use of technology and rigorous training imparted at various training centers coupled with stringent safety measures, which includes setting up of various female hostels, has led to a situation where women consist of almost one-fourth of the total workforce. This has led to social empowerment of females belonging to semi skilled category especially from rural background. On the other hand, the organization has benefited handsomely in terms of higher commitment and increased discipline at shop floor leading to improved productivity and better working environment.

B) FINANCIAL ANALYSIS AND REVIEW OF OPERATIONS:

• Production & Sales Review:

During the year under review, your company has registered a turnover of Rs. 3,636.96 crore as compared to Rs. 2,767.22 crore showing an increase of 31.43% over the previous year turnover. The export of the Company increased from Rs. 704.00 crore to Rs. 1,218.26 crore, showing an increase of 73.05% over the previous year mainly due to price rise and better product/market penetration. The business wise performance is as under:-

a). Yarn:

The production of Yarn increased from 126,146 MT to 130,861 MT during 2010-2011. The sales revenue of yarn increased from Rs. 1,476.99 crore to Rs. 2,041.06 crore during the year under review.

b). Steel:

The steel business of the Company stand vested in Vardhman Special Steels Limited w.e.f 1.1.2011 pursuant to the scheme of Arrangement and Demerge as sanctioned by Hon'ble Punjab & Haryana High Court. However for the nine months ending 31st, December 2010, the production of steel ingots/billets has been 64,581 MT and that of Rolled products has been 57,060 MT.

c). Fabric:

During the year, the production of processed fabric increased from 60.78 million meter to 75.44 million meter, showing an increase of 24.12% over the previous year. The sales revenue of the processed fabric also increased from Rs. 556.52 crore to Rs. 828.20 crore showing an increase of 48.81% over the previous year.

• Profitability:

The Company earned profit before depreciation, interest and tax of Rs. 944.69 crore as against Rs. 594.63 crore in the previous year. After providing for depreciation of Rs. 226.02 crore (Previous year Rs. 220.87 crore), interest of Rs. 109.81 (Previous Year

86.73 Crore), provision for current tax Rs. 134.50 crore (Previous year Rs. 56.75 crore), provision for deferred tax (net of adjustments), Rs. 4.65 crore (Previous year Rs. 16.51 crore), the net profit from operations worked out to Rs. 469.71 crore as compared to Rs. 213.76 crore in the previous year.

• Resources Utilisation:

a). Fixed Assets:

The gross fixed assets (including work-in-progress) as at 31st March, 2011 were Rs. 3,822.83 crore as compared to Rs. 3,611.65 crore in the previous year.

b). Current Assets:

Debtors outstanding for more than six months were Rs. 11.37 crore as compared to Rs. 13.00 crore in the previous year. The net current assets as on 31st March, 2011 were Rs. 2,328.12 crore as against Rs. 1,769.52 crore in the previous year. Inventory level was at Rs. 1,598.39 crore as compared to the previous year level of Rs. 1,107.46 crore.

• Financial Conditions & Liquidity:

The Company presently enjoys a rating of "AA with stable outlook" and "P1+" from Credit Rating Information Services of India (CRISIL) for long term and short term borrowings respectively. Management believes that the Company's liquidity and capital resources should be sufficient to meet its expected working capital needs and other anticipated cash requirements. The position of liquidity and capital resources of the Company is given below:-

	(Rs. in crore)	
	2010-2011	2009-2010
Cash and Cash equivalents:		
Beginning of the year	222.07	357.21
End of the year	48.77	222.07
Net cash provided (used) by:		
Operating Activities	(24.10)	(79.72)
Investing Activities	(327.45)	(97.06)
Financial Activities	182.63	41.64
Transfer to VSSL on Demerger	(4.38)	-

C) INTERNAL CONTROL SYSTEM:

The Company has well defined internal control system. The Company takes abundant care to design, review and monitor the working of internal control system. Internal Audit in the organization is an independent appraisal activity and it measures the efficiency, adequacy and effectiveness of other controls in the organization. All significant issues are brought to the attention of the Audit Committee of the Board.

D) MANAGEMENT PERCEPTION OF RISK AND CONCERN:

One of the key challenge to the textile industry is related to raw material prices mainly cotton prices which has seen very steep hike in 2010-11 and the same is still volatile creating uncertainties for textile manufacturers.

The second important challenge is rising energy prices which could adversely impact the profitability of textile mills. The third main issue for the textile industry is the non-availability of skilled manpower coupled with high labour cost prevailing in the country.

Uncertainty in the government export policy is other major challenge for the textile industry under which the government banned cotton yarn exports last year which lead to high inventory cost and losses to the indian textiles manufacturers and there is a fear of withdrawal of duty draw back benefits etc. to the exporters.

We are making all efforts to cope up with the challenges through continuous cost reduction, process improvements, imparting training to the workforce on the continued basis, process improvements and improved customer services to mitigate the growing cost pressure

E) HUMAN RESOURCES/INDUSTRIAL RELATIONS:

The Company continues to lay emphasis on building and sustaining an excellent organization climate based on human performance. Performance management is the key word for the company. During the year the Company employed over 24000 employees.

Pursuit of proactive policies for industrial relations has resulted in a peaceful and harmonious situation on the shop floors of the various plants.

3. SUBSIDIARIES:

The Company has following subsidiary companies the details of profitability of which are given below:-

VMT Spinning Company Limited (VMT)

Business of this subsidiary of the Company which is a Joint Venture with Marubeni Corporation and Toho Rayon Company Limited of Japan remained good. The sales revenue of the Company has increased to Rs. 128.34 crore from Rs. 101.65 crore in the last year and the net profits of the Company increased from Rs. 10.13 crore to Rs. 14.67 crore. Out of the total present paid-up capital of Rs. 20.70 crore, your Company holds 73.33 %. The Board of Directors of VMT has recommended a dividend of 12% for the year 2010-2011.

VTL Investments Limited (VTL)

This 100% subsidiary of your Company is engaged in the business of investments in the shares etc. The earnings of the company mainly comes from the dividend/interest earned on its investments and profits made on sale of investments. During the year the company has earned a net profit of Rs.1.06 crores.

Vardhman Acrylics Limited (VAL)

Vardhman Acrylics Limited (VAL) is another subsidiary of the Company which is engaged in the business of manufacturing of Acrylic Fibre. Presently the company holds 58.74% shares in this subsidiary. During the Financial Year 2010-2011, VAL recorded a sales volume of Rs. 430.33 crore as against Rs. 286.74 crore, an increase of 50.08% over the previous year, however the net profit for the year has decreased to Rs. 37.64 crore from Rs. 43.44 crore in the previous year.

Vardhman Yarns & Threads Limited (VYTL)

This subsidiary of the Company, a Joint Venture with American & Effird Inc. (A&E), is engaged in the business of Threads Manufacturing and Distribution. The Company has a joint venture partnership of 51:49 with A&E, which is the second largest global player in Threads Manufacturing and Distribution, in VYTL. During the year under review, the gross sales of this Company were Rs. 426.10 crore and the

Profit after tax was Rs. 49.31 crore. The Board of Directors of this Company has recommended a dividend @ 23% for the year 2010-11.

Vardhman Nisshinbo Garments Company Limited (VNGL)

This subsidiary of the Company which is a Joint Venture partnership of 51:49 with Nisshinbo Textiles Inc., Japan for manufacturing world class shirts started production in the fog end of the year and it incurred a loss of Rs. 1.99 crore as its operations are stabilizing.

Vardhman Special Steels Limited (VSSL)

During the year Vardhman Special Steels Limited was got incorporated as the 100% subsidiary of the Company. Pursuant to the Scheme of Arrangement & Demerger between Vardhman Textiles Limited and Vardhman Special Steels Limited and their respective shareholders & creditors, the Steel Business Undertaking of Vardhman Textiles Limited stand vested in Vardhman Special Steels Limited w.e.f. 01.01.2011 and the shareholders holding shares in Vardhman Textiles Limited were to be allotted one share for every five shares held in Vardhman Textiles Limited as on the relevant record date fixed for the purpose i.e. 30.03.2011. The said allotment of shares was made on 08.04.2011 and Vardhman Special Steels Limited ceased to be a subsidiary of the Company w.e.f. 08.04.2011.

4. QUALIFIED INSTITUTIONAL PLACEMENT :

During the year under review, the Company has made a Qualified Institutional Placement (QIP) to Qualified Institutional Buyers of 58,82,352 Equity Shares of Rs. 10/- each at a premium of Rs. 330/- aggregating to approx. Rs. 200 Crores. Consequently, the paid-up capital of the Company has increased to Rs. 63.65 crores.

5. STEEL BUSINESS RE-STRUCTURING :

During the year under review, pursuant to the Scheme of Arrangement & Demerger between Vardhman Textiles Limited and Vardhman Special Steels Limited and their respective shareholders & creditors as approved by the Board of Directors and Shareholders of respective Companies and sanctioned by the Hon'ble High Court of Punjab & Haryana at Chandigarh under Section 391-394 vide its Order dated 12th January, 2011, the Steel Business Undertaking of the Company has been demerged into a separate Company, Vardhman Special Steels Limited w.e.f 1st January, 2011.

6. DIVIDEND:

The Board of Directors of your Company has recommended dividend of Rs. 4.50 per share on the Fully Paid-up Equity Shares of the Company.

7. DIRECTORS:

The nomination of Ms. Amita Narain, the nominee of IDBI Ltd. on the Board of the Company, was withdrawn by IDBI Ltd. w.e.f. 21.06.2010 and Mr. S. Padmanabhan was nominated in her place.

Mr. Sachit Jain, Mr. Prafull Anubhai and Mr. A. K. Kundra, Directors of the Company, retire by rotation at the conclusion of the forthcoming Annual General Meeting, pursuant to the provisions of Article 108 of the Articles of Association of the Company and being eligible, offer themselves for re-appointment. The Board recommended their re-appointment for the consideration of the members of the Company at the ensuing Annual General Meeting.